Trade deficit narrows

Bangladesh's trade deficit narrowed slightly in the first half of the current 2018-19 fiscal year (July 2018-June 2019) on the back of an increase in exports, Xinhua reported.

Economic forecaster: UK can avoid no-deal Brexit recession

Britain could avoid slumping into a recession in the aftermath of a no-deal Brexit, according to one of Britain's leading economics forecasters.

The National Institute of Economic and Social Research (NIESR) said the blow to the economy from a disorderly departure from the EU could be softened by contingency plans being put in place by the government and by Brussels, theguardian.com reported.

Ministers could also reduce the impact with tax cuts and additional public spending, further limiting the damage.

Britain's oldest independent economics research institute — in forecasts likely to embolden Brexit supporters urging Theresa May to pursue a 'managed no-deal' — said that economic growth would come close to zero in the first two years after a no-deal Brexit. However, it would avoid the recession that has been forecast by some experts.

Although warning that every Brexit outcome would still be worse for the UK economy than remaining in the EU, it said there was sufficient headroom for the government to stabilize the economy in the short term.

"Were the UK to exit the EU without a deal in March, we would expect a sharper slowdown in economic activity than in the central case," NIESR said in a report published on Wednesday, adding, "How much the economy responds would depend on the extent to which policy steps in and eases the transition."

The report came after the Bank of England warned that Britain could plunge straight into a recession worse than the one that immediately followed the financial crisis 10 years ago, a scenario which has been used by the prime minister as a warning to MPs to vote for her EU withdrawal agreement to avoid inflicting significant damage on the economy.

SEAN SMITH/theguardian.com

While some measures have been proposed by both Britain and the EU to offset the impact of a no-deal scenario, many analysts warn that time is running out and that they may not be agreed upon in time.

Although a recession would be avoided under the no-deal scenario put forward by the NIESR, GDP growth over the long run would remain below the level forecast should the prime minister secure a deal with Brussels. It also said it was still its central estimate that a deal could be agreed, leading to growth of about 1.5 percent this year.

However, offering a possible route-map for a no-deal scenario, the NIESR analysis said that additional support could be put in place by ministers and the Bank of England to curb the short-term impact to the economy.

Interest rates could be held steady at the current level of 0.75 percent, rather than raised, while measures could be taken to provide direct support to household income, including income tax cuts and higher benefits payments.

Such interventions would, however, come with a cost. The NIESR report said unfurling such a package could add as much as £60 billion to government borrowing by 2023-24. It also warned that inflation could accelerate, eroding real wages and acting as a brake on the economy in future.

Amit Kara, the head of UK macroeconomics at NIESR, said, "All this is not to say there will not be long-term economic costs. Those costs remain intact. These are just mitigating measures.

"Whilst it does make headlines or sensational news to suggest the economy will go into recession or not, I don't think economists have the tools to be that precise. The big picture is I think there really will be a material slowdown," he added.

Japan PM Abe defends BoJ's policy despite inflation woes

Japanese Prime Minister Shinzo Abe praised the Bank of Japan's ultra-loose monetary policy for helping create jobs, suggesting the government wasn't unduly worried that inflation remains distant from the central bank's two percent target.


ISSEI KATO/REUTERS

Abe told parliament on Wednesday the government 'accepts' the explanation given by the BoJ on why inflation has failed to hit its target, stressing the economy would have been in much worse state without the central bank's stimulus program, Reuters reported.

"What's most important is what is happening to the economy as a result of the BoJ's target, which is that more jobs were created," Abe told an opposition lawmaker, who criticized the central bank for failing to drive up inflation.

Abe hand-picked BoJ Governor Haruhiko Kuroda in 2013 to deploy a heavy asset-buying program aimed at eradicating deflation and accelerating inflation to its two percent target.

The economy staged a recovery but inflation remains nowhere near the BoJ's goal despite six years of money printing, putting the premier's 'Abenomics' stimulus policies under fire.

The BoJ has blamed falling oil prices and the Japanese public's sticky deflationary mindset for delaying achievement of its price target.

Kuroda defended his policy, saying that Japan was not alone among advanced economies to see inflation hurt by factors beyond the central banks' control such as sliding oil prices.

"Expanding base money alone won't immediately have an effect on the economy," Kuroda told the same parliament committee.

"With huge expansion of base money, central banks can push down real interest rates and bank lending rates, which in turn would stimulate the economy," he said.

"This is what happened in the past six years."

The BoJ kept monetary policy steady last month but cut its inflation forecasts and warned of growing risks to the economy from trade protectionism and soft global demand.

Annual core consumer inflation slowed to a seven-month low of 0.7 percent in December, data showed last month, a further sign of the growing challenge faced by the BoJ.

Credit Suisse warns of higher tax rate under new US rules

Credit Suisse expects a higher tax rate for 2018 than previously forecast, it said on Wednesday, citing US tax changes aimed at preventing companies from shifting profits abroad.

Switzerland's second biggest lender said it expects an effective tax rate of roughly 40 percent on 2018 results, up from the 36.8-percent rate for the first nine months and higher than its previous full-year guidance of 37 percent, Reuters wrote.

The bank said the estimate included an 'adverse impact' of about two percent, based on its assessment of new US regulations.

The Base Erosion Anti-Abuse Tax (BEAT), introduced by the US Treasury Department in December, aims to prevent companies from reducing earnings of their US operations by loading their businesses with costs and deductions, and then using intercompany transfers to shift profit to lower-tax locations abroad.

The rule applies to corporate taxpayers with gross receipts of more than $500 million that make deductible payments to foreign entities. While the BEAT rules are still subject to final clarification, Credit Suisse said "it is more likely than not that the group will be subject to this tax for 2018".

The bank estimates the BEAT regulations would raise its tax burden by about two percent next year, to an estimated 30 percent.

Andreas Venditti, an analyst at Bank Vontobel in Zurich, reduced his earnings per share and net profit forecasts as a result.

He cut his 2018 net profit forecast to 1.9 billion francs from two billion francs, and his 2019 forecast to 3.3 billion francs from 3.4 billion francs.

"The volatility in tax rate guide is surprising, however it is clear that taxes are a highly complex topic, probably one of the most complex for any company's finance department," he said.

Credit Suisse shares were down 0.6 percent in early trading in Zurich.

The bank, due to report full-year results on February 14, said it awaited final publication of the rules before it could say for certain if it was liable for the tax in 2018 and 2019, as well as the size of the liability.

EU to veto rail merger in defiance of France, Germany

The EU's powerful antitrust sheriff, Margrethe Vestager, is set to veto the merger of the Siemens-Alstom rail businesses on Wednesday, in defiance of France and Germany.

The tie-up, announced to great fanfare last year, was hailed as the birth of a much needed European industrial champion, an Airbus for the railways to face down a formidable Chinese rival, AFP reported.

But, after months of investigation, and a failed concession offer by the companies, the European Commission will turn down the proposal, sources close to the matter told AFP.

French Finance Minister Bruno Le Maire on Wednesday conceded the likelihood of a veto, terming the expected decision 'an economic mistake'.

Such a decision "will serve the interests of China", he told France 2 television.

The likely veto has infuriated Paris, where ministers lobbied hard for the tie-up, seeing it as a necessary defense to compete against China's state-backed CRRC — a publicly traded rolling stock manufacturer.

The red light by Brussels will also leave a scar on Vestager in the eyes of France and Germany after years of her being seen as an EU rising star, tipped to take an even more senior role in Brussels after elections in May.

Decisions cannot be taken in the 21st century on the basis of competition rules that were defined in the 20th century," Le Maire said last month before a meeting with Vestager.

SEBASTIEN BOZON, CHRISTOF STACHE/AFP

A merger "is today the best response to China's growing importance in the railway sector. And the only one," he added.

The criticism came after Vestager, a Danish former finance minister, repeated her doubts about the merger, which was announced in September 2017.

Stubborn technocrats

Brussels believes the alliance would crush smaller groups and hike prices for train companies, with the merged company in a commanding position for selling rail signaling and high-speed trains.

Competition authorities in Britain, the Netherlands, Belgium and Spain have all firmly backed Vestager, afraid of increased costs for their national railways.

Backers of the tie-up want Vestager to look beyond Europe to the rise of CRRC, itself born of a merger of Chinese companies, before it is too late.

"This decision is symptomatic of a certain ideology of the commission that runs counter to European interests," said a French government source, regretting the EU's 'extremely strict' interpretation of the rules.

Caught in a political firestorm, commission head Jean-Claude Juncker defended the EU's competition policy on Tuesday, pointing a finger at those "who are saying that the commission is composed of blind, stupid, stubborn technocrats".

Juncker appeared to be hitting back at Joe Kaeser, the Siemens chief executive who last week complained that 'backwards-looking technocrats' were going to thwart a strategic tie up for Europe.

"We will never play politics or play favorites when it comes to ensuring a level playing field," Juncker said.

The merger proposal was to create a rail behemoth with operations in 60 countries and annual turnover of €15.6 billion ($17.8 billion).

Alone, CRRC's annual revenues of €26 billion outweigh the three Western heavyweights Bombardier, Siemens and Alstom, each of which brings in around eight billion a year.

Reuters poll: South Africa's rand to shed half its 2019 gains in a year

South Africa's rand will lose half of the seven-percent gains made against the US dollar since the start of the year over the next 12 months, pressured by fiscal constraints and weak growth, a Reuters poll found on Wednesday.

The rand has topped emerging market currencies since the turn of the year, buoyed by external developments such as a potentially more 'patient' Federal Reserve in raising interest rates and a revitalized mood in US-China trade talks.

However, in 12 months the rand is expected to have weakened over three percent to 13.85 per dollar although that median forecast is 58 cents stronger than last month's.

"There are still notable local risks aligned to subdued growth and fiscal challenges that warrant caution," said Christopher Shiells, emerging markets analyst at Informa Global Markets.

In October's budget review, South Africa's finance minister Tito Mboweni predicted wider budget deficits and cut growth forecasts that focused spending on infrastructure, manufacturing and agriculture to boost the weak economy.

"These challenges may lead to a sovereign credit rating downgrade from Moody's in March if the 2019 budget does not allay any lingering concerns," Shiells said.

The budget is due to be announced in about two weeks, followed by a Moody's review. Moody's is the only major agency still holding South Africa's debt at investment grade.

MIKE HUTCHINGS/REUTERS

A downgrade of the debt dominated in rands from Moody's will trigger forced capital outflows from passive investments.

Shiells also added to the risks national elections due in May which carry "popular policy moves and reform paralysis".

Analysts were still bullish about the support the currency has received from abroad even when local fundamentals have been disappointing.

The most bullish forecaster in the sample said the rand would trade at 12.63 per dollar in a year while the most bearish suggested the currency could weaken to 15.50.

Fed policymakers last month indicated they were pausing a rate increase campaign that began in December 2015 as the US central bank tries to sort out how much a weakening global economy could drag on the US.

South Africa's own rates were expected to be hiked 25 basis points to seven percent in May, after the Reserve Bank left them unchanged last month.

The Bank tries to keep inflation between its three percent to six percent comfort level and projected it would average 4.8 percent this year, down from a previous forecast of 5.5 percent. An average of 5.3 percent is expected in 2020.

Major Currencies

Currency	To USD	Currency	To USD
Turkish Lira	0.1916	Japanese 100 Yen	0.9115
Euro	1.1383	Chinese Yuan	0.1482
British Pound	1.2939	UAE Dirham	0.2722
Australian Dollar	0.7129	Kuwaiti Dinar	3.2931
Canadian Dollar	0.7580	Iraqi 100 Dinar	0.0837

Major Commodities

Crude Oil	$53.49	Silver	$15.81
Gold	$1319.00	Platinum	$819.30
Copper	$2.82	Wheat	$528.00